

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

In the Matter of	)	
	)	
Comments Sought on the	)	CC Docket No. 96-45
Recommended Decision	)	
of the Federal-State Joint Board	)	
on Universal Service Regarding	)	DA 02-2976
the Non-Rural High-Cost	)	
Support Mechanism	)	

**REPLY COMMENTS OF GVNW CONSULTING, INC.**

**Introduction and Background**

GVNW Consulting, Inc. (GVNW) is a management consulting firm that provides a wide variety of consulting services, including regulatory support on issues such as universal service, advanced services, and access charge reform for communications carriers in rural America.

The purpose of these reply comments is to respond to the Commission's request for comments and replies on the Recommended Decision (RD) of the Federal-State Joint Board on Universal Service regarding the non-rural high-cost support mechanism (DA 02-2976, released November 5, 2002). In brief, GVNW agrees with the Joint Board, as well as certain of the commenters that filed on December 20, 2002, that the recommendations regarding the non-rural high-cost universal service support methodology **should not** be applied to rural carriers.

## Summary of Reply Comments

We believe that the recommendations regarding the non-rural high-cost universal service support methodology **should not** be applied to rural carriers for the following reasons:

- 1) Rural carrier federal universal service support is properly excluded from this proceeding;
- 2) Rural carrier support should continue to be governed by the RTF Order until at least July 1, 2006;
- 3) The significant differences between non-rural and rural carriers necessitate the continued use of separate mechanisms.

GVNW Consulting, Inc. now offers further detail on the three points above with the following reply comments that illustrate why the recommendations regarding the non-rural high-cost universal service support methodology should not be applied to rural carriers.

### RURAL CARRIER FEDERAL UNIVERSAL SERVICE SUPPORT IS PROPERLY EXCLUDED FROM THIS PROCEEDING

Recently, the Commission has indicated its intent to finish its review of the non-rural support mechanism prior to a more comprehensive review of both the rural and non-rural mechanisms.

We concur with the statement at paragraph 9 of the RD that “the Joint Board recommendations outlined in this decision apply to the non-rural high-cost universal service support mechanism and do not address the rural mechanism (footnote omitted).”

The Joint Board provides a rationale for this approach by stating at paragraph 11 that “Certain assumptions in this Recommended Decision may not make sense for rural carriers.” One specific example cited is that the non-rural mechanism’s use of statewide cost averaging may not be appropriate for small rural carriers. In the comments of the Wyoming Public Service Commission, an example of this is provided at page 6 in the context of discussing the comparability issue:

*In Wyoming, our statewide weighted average rate is \$24.56. Yet, the individual rates . . . range from a low of \$10.50 per month to a high of \$91.36. No one could fairly or reasonably assert that \$10 and \$91 are comparable simply because both are used to compute a statewide weighted average.*

RURAL CARRIER SUPPORT SHOULD CONTINUE TO BE GOVERNED BY THE  
RURAL TASK FORCE (RTF) ORDER UNTIL AT LEAST JULY 1, 2006

In paragraph 8 of the RTF Order, the Commission provided some of its rationale for adopting the vast majority of the RTF recommendations, stating in part that the package struck a fair and reasonable balance among the universal service principles found in Section 254. This balance is still present in 2003.

Underlying its recommendation for a five-year period of applicability, the RTF itself reasoned that this sixty-month period would provide rural carriers with predictable and stable funding that would provide an incentive to deploy infrastructure investment. The United States Telecom Association (USTA) agreed with the five-year applicability of the RTF Order timeframe in the following comments on page 3 of their filing:

*. . . USTA emphasizes that rural carriers are currently receiving federal high-cost universal service support pursuant to the Rural Task Force Order (footnote omitted), which provides such support to rural carriers through a modified embedded cost mechanism through June 30, 2006. This support mechanism for rural carriers must remain in place through that date to ensure that rural carriers will have predictable levels of support so that they can continue to provide affordable and quality telecommunications services to rural America.*

Within its RD, the Joint Board offers no discussion that questions the validity of the time frame established in the RTF Order. While all parties recognize that in paragraph 168 of the RTF Order the Commission indicated its future intent to develop a long-term universal service support plan for rural carriers, this process has not yet been started. Due to these factors, any change to the RTF Order at this point in time would be presumptive and lacking a public record. One of the primary reasons that the RTF recommended that the cost proxy model was not the appropriate tool for rural carriers was due to the averaging issue. As NRTA and OPASTCO stated in their comments at page 4:

*Indeed, the Joint Board has questioned the impact of averaging on rural carriers, which the meticulous analysis and reasoning of the RTF demonstrate is not at all suitable for rural carriers.*

The 10<sup>th</sup> Circuit Court itself recognized the nature of the RTF recommendations with respect to the computer proxy model.<sup>1</sup> Therefore, we submit that the Commission should maintain the stability of the method for calculating rural carrier high-cost support for at least the time period provided by the Commission's RTF Order.

THE SIGNIFICANT DIFFERENCES BETWEEN NON-RURAL AND RURAL CARRIERS NECESSITATE THE CONTINUED USE OF SEPARATE MECHANISMS

Early in the text of its RTF Order, the Commission notes at paragraph 4 that rural carriers face diverse circumstances and that “**one size does not fit all**” with respect to appropriate federal universal service support mechanisms (emphasis added).

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<sup>1</sup> *Qwest Corp. v. FCC*, 258 F. 3d 1911, 1204, n. 13 citing RTF Recommendation, 16 FCC Rcd 6181.

We concur with the excerpt found on page 6 of the NRTA and OPASTCO comments:

*In light of this fact, the Commission should continue to maintain separate rural and non-rural high-cost support mechanisms when it begins to devise a long-term universal service framework for rural carriers, to be implemented sometime after the RTF regime's expiration. The RTF's comprehensive study of the market and operational differences between rural and non-rural carriers makes a strong case for the continuation of bifurcated support mechanisms.*

In paragraph 28 of its RD, the Joint Board recognized that a large number of rural carriers do not possess the economies of scale and scope that are enjoyed by their urban counterparts. AT&T attempts to ignore the realities of the rural carrier market when they suggest on page 3 of their filing that “*the Commission should begin the process of establishing appropriate mechanisms for the rural markets, based on forward-looking cost and adhering to the essential features of the nonrural mechanisms.*” AT&T's assertion is misguided based on the current record in the docket, as we detail below.

The nature and scope of these significant differences, both as compared to non-rural carriers, and within the subset of rural carrier markets has been placed in the public record by the Rural Task Force (RTF) via its White Paper 2, entitled The Rural Difference, released in January, 2000. As the comments of the National Association of State Utility Consumer Advocates states at page 5, the RTF paper “*authoritatively summarizes these differences, focusing on the characteristics of the rural carriers.*” The White Paper offered a very detailed empirical analysis of the major rural carrier differences. In brief, the analysis led the RTF to reach nine conclusions with respect to the rural difference issue:

- 1) Rural carriers serve more sparsely populated areas;

- 2) There is significant variation in study area sizes and customer bases among rural carriers;
- 3) The isolation of areas served by rural carriers results in numerous operational challenges;
- 4) Compared to non-rural carriers, the customer base of rural carriers generally includes fewer high-volume users, depriving rural carriers of economies of scale;
- 5) Compared to customers of non-rural carriers, customers of rural carriers tend to have a relatively small local calling scope and make proportionately more toll calls;
- 6) Rural carriers frequently have substantially fewer lines per switch than do non-rural carriers, providing fewer customers over which to spread high fixed network costs;
- 7) Total investment in plant per loop is substantially higher for rural carriers than for non-rural carriers;
- 8) Plant specific and operations expenses for rural carriers tend to be substantially higher than for non-rural carriers;
- 9) Customers served by rural carriers have different demographic characteristics from customers in areas served by non-rural carriers.

Thus, the distinct differences that exist between rural and non-rural carriers justifies the continued use of separate high-cost support mechanisms as part of any methodology that the FCC adopts to further refine the RTF rules. We concur with the statement found at page 4 of the NRTA and OPASTCO comments:

*. . . urge the Commission not to try to cram the diverse and higher cost universe of rural carriers into the plan it has adopted for the non-rural carriers.*

## **Conclusion**

We concur with USTA's recommendation for a separate rural proceeding, as noted at page 4 of their comments:

*Any substantive review of the rural mechanism necessitates a separate proceeding to fully consider the complex issues surrounding high-cost support for rural carriers, not a transfer of determinations made in this proceeding to the rural mechanism. In sum, USTA is not filing substantive comments at this time on the establishment of a federal high-cost universal service support mechanism for non-rural carriers, however, for the foregoing reasons USTA urges the Commission to refrain from applying any determinations it makes in this proceeding to the federal high-cost universal service support mechanism for rural carriers.*

The Rural Task Force itself indicated in its recommendations that different approaches are needed to meet national public policy objectives:

*The evidentiary record assembled by the Rural Task Force clearly supports a conclusion that a "one-size-fits-all" national universal service policy is unlikely to be successful in fulfilling the national universal service principles contained in the 1996 Act.*

Commissioner Rowe's separate statement on the Non-Rural Recommended Decision captures some of the concern about the impacts of applying non-rural rules to rural carriers:

*I am greatly concerned that this decision may be applied in the future to small carriers. While these carriers serve a minority of rural customers nationwide, in most states they serve areas that are predominantly rural. In many cases they have few or no low-cost customers upon whom to rely for low averaged rates. Accordingly, insufficient cost-based support is a problem for relatively few of the large non-rural carriers, but it can be a matter of great importance for the customers of small rural companies.*

For all the reasons detailed above, we conclude that the recommendations regarding the non-rural high-cost universal service support methodology should not be applied to rural carriers.

Respectfully submitted,

electronically submitted through ECFS

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